



# U.S.-South Korea Relations

**Mark E. Manyin**

Specialist in Asian Affairs

**Mary Beth Nikitin**

Specialist in Nonproliferation

**Emma Chanlett-Avery**

Specialist in Asian Affairs

**Ian E. Rinehart**

Analyst in Asian Affairs

**William H. Cooper**

Specialist in International Trade and Finance

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# Summary

## Overview

South Korea is one of the United States' most important strategic and economic partners in Asia. Members of Congress tend to be interested South Korea-related issues for a number of reasons. First, the United States and South Korea have been allies since the early 1950s. Under their military alliance, the United States is committed to helping South Korea defend itself, particularly against any aggression from North Korea. The United States maintains about 28,500 troops in the ROK and South Korea is included under the U.S. "nuclear umbrella." Second, Washington and Seoul cooperate over how to deal with the challenges posed by North Korea. Third, South Korea's emergence as a global player on a number of issues has provided greater opportunities for the two countries' governments, businesses, and private organizations to interact and cooperate with one another. Fourth, the two countries' economies are closely entwined and are joined by the Korea-U.S. Free Trade Agreement (KORUS FTA), the United States' second-largest FTA. South Korea is the United States' seventh-largest trading partner. The United States is South Korea's third-largest trading partner.

Since late 2008, relations between the United States and South Korea (known officially as the Republic of Korea, or ROK) have been arguably at their best state in decades. Much of the current closeness between Seoul and Washington is due to the convergence of interests between the Obama Administration and the government of former President Lee Myung-bak, who left office at the end of February 2013. The overall U.S.-South Korean relationship is expected to remain healthy under new President Park Geun-hye, although she has hinted at policy moves that could cause intense bilateral discussions, particularly over North Korea policy and the renewal of a civilian nuclear cooperation agreement.

## Strategic Cooperation and the U.S.-ROK Alliance

Dealing with North Korea is the dominant strategic element of the U.S.-South Korean relationship. The two countries' coordination over North Korea was exceptionally close under the Lee and Obama Administrations. Bilateral cooperation is expected to work well under President Park, but it remains to be seen whether her calls for a new combination of toughness and flexibility toward Pyongyang will challenge Washington and Seoul's ability to coordinate their policies. Perhaps most notably, Park has proposed a number of confidence-building measures with Pyongyang in order to create a "new era" on the Korean Peninsula. Two key questions will be the extent to which her government will link these initiatives to progress on denuclearization, which is the United States' top concern, and how much emphasis she will give to North Korea's human rights record. Likewise, an issue for the Obama Administration and Members of Congress is to what extent they will support—or, not oppose—initiatives by Park to expand inter-Korean relations.

Since 2009, the United States and South Korea have accelerated steps to transform the U.S.-ROK alliance's primary purpose from one of defending against a North Korean attack to a regional and even global partnership. Washington and Seoul have announced a "Strategic Alliance 2015" plan to relocate U.S. troops on the Peninsula and boost ROK defense capabilities. Some Members of Congress have criticized the relocation plans, and Congress has cut funds for a related initiative that would "normalize" the tours of U.S. troops in South Korea by lengthening their stays and allowing family members to accompany them.

In the first half of 2013, the United States and South Korea are expected to negotiate a new Special Measures Agreement (SMA) that includes always-contentious discussions over how much South Korea should pay to offset the cost of stationing U.S. forces in Korea.

### **Nuclear Cooperation Agreement**

The United States and South Korea announced on April 24, 2013, that they had agreed to a two-year extension of the existing bilateral civilian nuclear cooperation agreement. For months, bilateral talks over a new civilian nuclear cooperation agreement have stalled due to disagreement over how to treat fuel making technologies in a renewed accord. Since the current agreement expires in March 2014, the Obama Administration would need to submit a new agreement for the mandatory congressional review period in late spring 2013 for it to take effect before the current agreement expires. Both Houses of Congress will need to vote to approve the two-year extension. Talks on an updated agreement will continue, and the two-year extension is considered a temporary solution to avoid any disruption to nuclear trade and provide more time for negotiators. South Korea reportedly has requested that the new agreement include a provision that would give permission in advance for U.S.-controlled spent nuclear fuel to be reprocessed. The Obama Administration has resisted this change, which would pose challenges for U.S. non-proliferation policy.

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This report contains two main parts: a section describing recent events and a longer background section on key elements of the U.S.-South Korea relationship. The end of the report provides a list of CRS products on South Korea and North Korea.

## Developments in Late 2012 and Early 2013

From 2009-2012, U.S.-South Korea relations were exceptionally strong, as evidenced by close coordination over North Korea policy, by the entry into force of a bilateral trade agreement in March 2012, and by the positive personal relationship forged by Presidents Barack Obama and Lee Myung-bak. It remains to be seen whether this combination of shared interests, priorities, and personal chemistry will continue under South Korea's new President, Park Geun-hye, who took office in February 2013. Park is scheduled to address a joint session of Congress on May 8, the day after she and President Obama hold their first summit meeting. 2013 is the 60<sup>th</sup> anniversary of the U.S.-ROK alliance.

### South Korea at a Glance

**Head of State:** President Park Geun-hye (elected December 2012; limited to one five-year term)  
**Ruling Party:** *Saenuri* (New Frontier) Party (NFP)  
**Largest Opposition Party:** Democratic United Party (DUP)

**Size:** slightly larger than Indiana

**Arable Land:** 16.6%

**Population:** 48.9 million (July 2012 est.) (North Korea = 24.7 million)

**Ethnicity:** homogenous (except for about 20,000 Chinese)

**Life Expectancy:** 79.3 years (U.S. = 78.49 yrs.; North Korea = 69.2 yrs.)

**Infant Mortality:** 4.08 deaths/1,000 live births (U.S. = 6.00)

**Fertility Rate:** 1.23 children born/woman (U.S. = 2.06)

**Literacy Rate:** 98%

**Nominal GDP:** \$1.6 trillion (2012 est.); world's 13<sup>th</sup> largest economy (U.S. = \$15.7 trillion; North Korea = \$40 billion)

**GDP Per Capita (Purchasing Power Parity):** \$32,400 (2012 est.) (U.S. = \$49,800; North Korea = \$1,800)

**Exports:** \$548.2 billion (2012 est.)

**Imports:** 520.5 billion (2012 est.)

**Source:** CIA, *The World Factbook*, March 21, 2013.

## Park Geun-hye Wins South Korean Presidential Election

In December 2012, South Koreans narrowly elected the 61-year-old Park, the candidate of the ruling conservative *Saenuri* ("New Frontier") Party (NFP), as president. She will serve until February 2018. By law, South Korean presidents serve a single five-year term.

Park defeated Moon Jae-in, the candidate of the opposition, left-of-center Minjoo ("Democratic United") Party (DUP), capturing 51.6% of the vote, compared with Moon's 48%. Park not only became the first woman to be elected as South Korea's president, but also the first presidential candidate to receive more than 50% of the vote since South Korea ended nearly three decades of authoritarian rule in 1988. At nearly 76%, turnout was the highest in over a decade. The substance of the campaign revolved around overcoming South Korea's economic difficulties and strengthening the social safety net, issues that Park championed in what many analysts regard as a successful attempt to co-opt the DUP's agenda. The voting revealed stark demographic schisms in

South Korean society, with voters over 50 overwhelmingly choosing Park and those under 40 favoring Moon by a wide margin.

In general, Park's victory makes it more likely that South Korea-U.S. relations will remain relatively strong. Moon had advocated a number of policies that would likely have placed South Korea and the United States at odds. In particular, he had called for renegotiation of provisions of the KORUS FTA and for South Korea to return to a policy of largely unconditional engagement with North Korea. On most major issues Park generally appears to have a similar outlook to the Obama Administration, although as discussed in the North Korea and civilian nuclear agreement sections below, there are some areas in which the two sides are expected to take different approaches. Park is the daughter of the late Park Chung-hee, who ruled South Korea from the time he seized power in a 1961 military coup until 1979.

## Cooperation over North Korea Policy<sup>1</sup>

On most issues, President Park generally is known as a pragmatist rather than an ideologue. Her statements on North Korea policy include elements of both conciliation and firmness, and she has written that her approach would "entail assuming a tough line against North Korea sometimes and a flexible policy open to negotiations other times."<sup>2</sup> On the one hand, Park has called for creating a "new era" on the Korean Peninsula by building trust between North and South Korea. To build trust, Park and members of her transition office have indicated a desire to eventually:

- resume North-South Korean dialogue and give "new momentum" to the Six-Party talks over North Korea's nuclear program;<sup>3</sup>
- delink humanitarian assistance from overall diplomatic developments and make such assistance more transparent than in the past;
- ease or end the restrictions on South Korean commercial ties to North Korea that the South Korean government imposed after the April 2010 sinking of the South Korean naval vessel, the *Cheonan*;
- restore cooperation with North Korea for South Koreans to participate in tours of Mt. Kumgang and Kaesong city inside North Korea;
- internationalize and expand the Kaesong Industrial Complex, an industrial park inside North Korea where over 100 South Korean companies employ over 40,000 North Koreans;
- uphold the promises former President Roh Moo-hyun made in an October 2007 summit with former North Korean leader Kim Jong-il to provide large-scale economic assistance and fund reconstruction projects;

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<sup>1</sup> For more on North Korea issues, see CRS Report R41259, *North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation*, by Emma Chanlett-Avery and Ian E. Rinehart; and CRS Report RL34256, *North Korea's Nuclear Weapons: Technical Issues*, by Mary Beth Nikitin.

<sup>2</sup> Park Geun-hye, "A New Kind of Korea: Building Trust between Seoul and Pyongyang," *Foreign Affairs*, September/October 2011.

<sup>3</sup> The Six Party Talks, which were last held in late 2008, involved China, Japan, North Korea, Russia, South Korea, and the United States.



- explore the building of a transportation and energy network running through North Korea to connect South Korea with China, Russia and the rest of Eurasia;
- meet with North Korean leader Kim Jong-un “if it helps to foster South-North relations.”<sup>4</sup>

These policies are generally consistent with Park’s actions and words for over a decade; for instance, in 2002 she visited Pyongyang and met with Kim Jong-il. In March and April, Park’s government indicated it plans to follow through on Park’s campaign pledge to delink humanitarian assistance from other diplomatic developments. It remains unclear how large an aid package Seoul is considering in this first offer to Pyongyang. In 2011, the U.S. House passed by voice vote an amendment that in effect would have prohibited the U.S. government from providing food assistance to North Korea.<sup>5</sup>

On the other hand, Park also has long stated that a nuclear North Korea “can never be accepted” and that building trust with Pyongyang will be impossible if it cannot keep the agreements made with South Korea and the international community. Park has also said that South Korea will “no longer tolerate” North Korean military attacks, that they will be met with an “immediate” South Korean response, and that the need for South Korea to punish North Korean military aggression “must be enforced more vigorously than in the past.”<sup>6</sup> After North Korea’s successful December 2012 launch of a satellite (using long-range missile technology), February 2013 nuclear test, partial closure of the inter-Korean industrial park near the city of Kaesong, and bellicose rhetoric, Park has emphasized the strength of the ROK-US deterrence posture. Meanwhile, the United States has demonstrated its commitment to defend South Korea with unusually well-publicized practice sorties by B-52 bombers, B-2 bombers, and F-22 fighters, among other measures.

It is not clear how the Park government will resolve the seeming contradiction between the impulses of toughness and flexibility. A key question will be the extent to which her government will link progress on denuclearization – the United States’ top concern – to other elements of South Korea’s approach toward North Korea. Likewise, an issue for the Obama Administration and Members of Congress is to what extent they will support – or, not oppose – any initiatives by Park to expand inter-Korean relations. In an April 13 joint statement issued after Secretary of State John Kerry’s meeting with his South Korean counterpart, Yun Byung-se, the two sides stated that “... the United States welcomes the Trust-building Process on the Korean Peninsula proposed by President Park Geun-hye.”

One relatively new factor that may influence Park’s policy is North Korea’s apparent progress in its missile and nuclear programs. North Korea’s February 2013 nuclear test, for instance, triggered calls in South Korea for the United States to redeploy tactical nuclear weapons in the ROK and for South Korea to develop its own nuclear weapons deterrent. Following North

<sup>4</sup> Park Geun-hye, “Trustpolitik and the Making of a New Korea,” November 15, 2012. During February 2013 testimony before the National Assembly, Foreign Minister Yun Byung-se reportedly said that “it’s too early” to send an emissary to North Korea to work on improving bilateral ties. “ROK FM Nominee Says DPRK’s Nuclear Capacity ‘At Top Level,’” *Yonhap*, February 28, 2013.

<sup>5</sup> The amendment was included in the House version of H.R. 2112, the FY2012 Agriculture Appropriations Act. The Senate version of the bill, passed on November 1, contained no such measure. Participants in the House-Senate conference committee decided to strip the amendment’s tougher restrictions, replacing it with language (§741) that food assistance may only be provided if “adequate monitoring and controls” exist. President Obama signed H.R. 2112 (P.L. 112-55) into law on November 18, 2011.

<sup>6</sup> Park Geun-hye, “A New Kind of Korea,” *Foreign Affairs*, September/October 2011.

Korea's nuclear test, President Obama personally reaffirmed the U.S. security guarantee of South Korea (and Japan), including extended deterrence under the United States' so-called "nuclear umbrella." In early March 2013, Park stated that "provocations by the North will be met by stronger counter-responses," and the chief operations officer at South Korea's Office of the Joint Chiefs of Staff was widely quoted as saying that if South Korea is attacked, it will "forcefully and decisively strike not only the origin of provocation and its supporting forces but also its command leadership."<sup>7</sup> South Korean defense officials later clarified that "command leadership" referred to mid-level military commanders who direct violent attacks and not North Korean political leaders such as Kim Jong-un.

One indicator of the course of inter-Korean relations is the status of the eight-year old Kaesong Industrial Complex (KIC), which until 2013 appeared to be largely insulated from the general downturn in North-South relations since 2008. From 2008-2012, for instance, the number of North Korean workers at the sites expanded from around 39,000 to 53,000, and annual production by the 100 plus factories nearly doubled, to around \$470 million. The KIC also generated revenue for the North Korean government. However, events in April 2013 have thrown the future of the KIC into doubt. North Korea barred South Korean managers and supplies from entering (but not leaving) the complex, leading the factories to shut down production, and eventually to the South Korean government announcing the pullout of all South Korean personnel.

## Nuclear Energy Cooperation

In the spring of 2013, the Administration will ask Congress to vote on whether to extend the U.S.-ROK nuclear cooperation agreement (known as a "123" agreement), which expires in March 2014.<sup>8</sup> The United States and South Korea began official talks on renewing the agreement in October 2010.<sup>9</sup> These talks continue, and a draft agreement was proposed by South Korea in the second round of talks in March 2011. It is estimated that the Obama Administration would need to send an agreement to Congress for the required review period by late spring 2013 to avoid a lapse in the agreement. If the agreement is not renewed in the necessary timeframe and the current 123 agreement lapses, certain commercial contracts may be suspended. The two countries announced on April 24 that they would extend the agreement for two years, and continue talks on a long-term extension. A two-year extension would require a positive vote of approval by both Houses of Congress to come into effect.

One point of disagreement in the renewal process is whether South Korea will press the United States to include a provision that would allow for the reprocessing of its spent fuel. The South Korean government is reportedly also seeking confirmation in the renewal agreement of its right to enrichment technology. The current U.S.-Korea nuclear cooperation agreement, as with other standard agreements,<sup>10</sup> requires U.S. permission before South Korea can reprocess U.S.-origin spent fuel, including spent fuel from South Korea's U.S.-designed reactors.<sup>11</sup> The issue has

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<sup>7</sup> Blue House, "Park Geun-hye 2013 March 1<sup>st</sup> speech," March 1, 2013; Choe Sang-Hun, "South Korea Pushes Back on North's Threats," *NYTimes.com*, March 6, 2013.

<sup>8</sup> Full text at [http://nnsa.energy.gov/sites/default/files/nnsa/inlinefiles/Korea\\_South\\_123.pdf](http://nnsa.energy.gov/sites/default/files/nnsa/inlinefiles/Korea_South_123.pdf).

<sup>9</sup> "Discussions on the New U.S.-R.O.K. Civil Nuclear Cooperation Agreement State Department Press Release, October 26, 2010, <http://www.state.gov/r/pa/prs/ps/2010/10/150026.htm>.

<sup>10</sup> CRS Report RS22937, *Nuclear Cooperation with Other Countries: A Primer*, by Paul K. Kerr and Mary Beth Nikitin.

<sup>11</sup> Under the 1978 Nuclear Nonproliferation Act, consent rights apply to material originating in the U.S. or material that (continued...)

become a sensitive one for many South Korean officials and politicians, who see it as a matter of national sovereignty. The United States has been reluctant to grant such permission due to concerns over the impact on negotiations with North Korea and on the nonproliferation regime overall. Through reprocessing, spent fuel can be used to make reactor fuel or to acquire plutonium for weapons. For many years, the United States and South Korea have worked on joint research and development projects to address spent fuel disposition, including joint research on pyro-processing, a type of spent fuel reprocessing. In October 2010, the two countries began a 10-year, three-part joint research project on pyro-processing that includes joint research and development at Idaho National Laboratory, development of international safeguards for this technology, economic viability studies, and other advanced nuclear research including alternatives to pyro-processing for spent fuel disposal.<sup>12</sup> For more on the negotiations, U.S.-ROK civilian nuclear cooperation, and congressional procedures for considering an extension of the 123 agreement, see the “Nuclear Energy and Non-Proliferation Cooperation” section below.

## State of the Alliance and Outlook Under Park

During Lee Myung-bak’s term, the U.S.-ROK alliance came to be labeled by U.S. officials as a “linchpin” of stability and security in the Asia-Pacific. This designation reflected an overall deepening of defense ties and joint coordination, particularly in response to provocations from North Korea. Joint statements issued from a series of high-level meetings emphasized the commitment to modernize and expand the alliance while reaffirming the maintenance of current U.S. troop levels on the peninsula and the U.S. security guarantee to protect South Korea. In 2012, these occasions included a June “2+2” meeting of the foreign and defense ministers from both countries and a follow-up U.S.-ROK Security Consultative Meeting between Defense Secretary Leon Panetta and his counterpart.

Considered by most analysts to be a strong supporter of the alliance, Park is expected to continue close defense coordination with the United States despite her campaign promises to engage North Korea more than her predecessor. For both sides, however, the alliance faces a range of budgetary issues. The new budget approved by the South Korean National Assembly in January 2013 cut proposed defense procurement funding in order to pay for social programs that Park had pledged to establish during her campaign. The vote drew complaints from outgoing Lee Administration security officials and could hinder some cooperative efforts with the United States. The U.S. Congress has also voiced concern about the price tag for the troop relocation and tour normalization plans; the FY2012 and FY2013 National Defense Authorization Acts freeze funding for tour normalization. (For more, see the “Security Relations and the U.S.-ROK Alliance.”) In addition, budget constraints could intensify upcoming negotiations for Korean cost-sharing; the current Special Measures Agreement expires on January 1, 2014. In April 2013 the Senate Armed Services Committee issued a report that examined U.S. costs associated with the American military presence overseas, including in South Korea.<sup>13</sup> The report was critical of the

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(...continued)

has been fabricated into fuel or irradiated in a reactor with U.S. technology. The majority of South Korea’s spent fuel would need U.S. consent before it could be reprocessed.

<sup>12</sup> “Discussions on Korea-U.S. Joint Research on Fuel Cycle,” Press Release, Ministry of Education, Science and Technology, Republic of Korea, April 18, 2011; “S. Korea, U.S. Agree to Start Joint Study on Nuclear Fuel Reprocessing,” *Yonhap*, April 17, 2011.

<sup>13</sup> For full report, see [http://www.armed-services.senate.gov/press/releases/upload/RELEASE\\_SASCBasingReport\\_041713.pdf](http://www.armed-services.senate.gov/press/releases/upload/RELEASE_SASCBasingReport_041713.pdf).

rising costs of relocation plans, as well as the South Korean contribution to those costs. It also found weak oversight of the projects, due to limited review by the Army, the Pentagon, and Pacific Command, in addition to no authorization from Congress.

## Revision of South Korean Ballistic Missile Guidelines

On October 7, 2012, South Korea announced that the United States had agreed to allow South Korea to increase the maximum range of its ballistic missiles from 300 km (186 miles) to 800 km (500 miles) and to increase the payload limit from 500 kg (1,100 lbs.) to 1,000 kg (2,200 lbs.) if the range is reduced proportionately.<sup>14</sup> The revised missile guidelines had reportedly been under negotiation for two years, following two conventional military attacks in 2010 by North Korea against South Korean military and civilian targets. The South Korean and U.S. governments characterized the revision as an effort to improve deterrence in response to the increased military threat of North Korea, particularly its ballistic missiles. Alliance politics also may have encouraged Washington to acquiesce to Seoul's demands.<sup>15</sup>

The ballistic missile range extension agreement has drawn criticism for what some observers see as negative implications for global non-proliferation efforts. The revised guidelines do not violate the Missile Technology Control Regime (MTCR), but critics argue that the United States has damaged its credibility to restrain other countries' missile development, including North Korea's. Other analysts have raised concerns about the impact of the agreement on the regional security environment in Northeast Asia.<sup>16</sup> Some analysts view North Korea's December 2012 rocket launch (using ballistic missile technology) partly as a response to the revised guidelines.<sup>17</sup>

## Background on U.S.-South Korea Relations

### Overview

While the U.S.-South Korea relationship is highly complex and multifaceted, five factors arguably drive the scope and state of relations between the two allies:

- the challenges posed by North Korea, particularly its weapons of mass destruction programs and perceptions in Washington and Seoul of whether the Kim Jong-un regime poses a threat, through its belligerence and/or the risk of its collapse;
- the growing desire of South Korean leaders to use the country's middle power status to play a larger regional and, more recently, global role;

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<sup>14</sup> South Korea first agreed to ballistic missile range and payload restrictions in 1979 in exchange for U.S. technical assistance in missile development. The revised guidelines supersede bilateral agreements made in 1990 and 2001.

<sup>15</sup> Daniel Pinkston, "The New South Korean Missile Guidelines and Future Prospects for Regional Stability," International Crisis Group, October 25, 2012, <http://www.crisisgroupblogs.org/strongandprosperous/2012/10/25/the-new-south-korean-missile-guidelines-and-future-prospects-for-regional-stability/>.

<sup>16</sup> James Schoff, *The New Missile Risk on the Korean Peninsula*, Carnegie Endowment for International Peace, Commentary, Washington, DC, September 17, 2012, <http://carnegieendowment.org/2012/09/17/new-missile-risk-on-korean-peninsula/dugs>.

<sup>17</sup> Tad Farrell, "Understanding North Korea's Next Satellite Launch," *NK News*, December 1, 2012.

- China's rising influence in Northeast Asia, which has become an increasingly integral consideration in many aspects of U.S.-South Korea strategic and (to a lesser extent) economic policymaking;
- South Korea's transformation into one of the world's leading economies—with a very strong export-oriented industrial base—which has led to an expansion of trade disputes and helped drive the two countries' decision to sign a free trade agreement; and
- South Korea's continued democratization, which has raised the importance of public opinion in Seoul's foreign policy.

Additionally, while people-to-people ties generally do not directly affect matters of “high” politics in bilateral relations, the presence of over 1.2 million Korean-Americans and the hundreds of thousands of trips taken annually between the two countries has helped cement the two countries together.

Members of Congress tend to be interested in South Korea-related issues because of bilateral cooperation over North Korea, a desire to oversee the management of the U.S.-South Korea alliance, South Korea's growing importance on various global issues, deep bilateral economic ties, and the interests of many Korean-Americans. The 112<sup>th</sup> Congress held over 15 hearings directly related to South and North Korea.

Figure I. Map of the Korean Peninsula



Source: Prepared by CRS based on ESRI Data and Maps 9.3.1; IHS World Data.

Since late 2008, relations between the United States and South Korea have been arguably at their best state in decades, if not ever. Coordination over North Korea policy under the Obama Administration and the former government of Lee Myung-bak was particularly close, with one high-level official in late 2009 describing the two countries as being “not just on the same page, but on the same paragraph.”<sup>18</sup> At a summit in June 2009, the two parties signed a “Joint Vision” statement that foresees the transformation of the alliance’s purpose from one of primarily defending against a North Korean attack to a regional and even global alliance, in which Washington and Seoul cooperate on a myriad of issues, including climate change, energy security, terrorism, economic development, and human rights promotion, as well as peacekeeping and the stabilization of post-conflict situations.

Much of the U.S.-South Korean closeness was due to the policies of President Lee, including his determination after assuming office in 2008 to improve Seoul’s relations with Washington. However, by the end of his term, there was considerable dissatisfaction in South Korea with many of Lee’s policies, and he exited office with public approval ratings in the 25%–35% level. On North Korea, for instance, the United States and South Korea often have different priorities, with many if not most South Koreans generally putting more emphasis on regional stability than on deterring nuclear proliferation, the top U.S. priority. These differences have been masked by North Korea’s general belligerence since early 2009 and to a large extent were negated by President Lee’s consistent stance that progress on the nuclear issue is a prerequisite for improvements in many areas of North-South relations. As mentioned above, while bilateral coordination over North Korea policy is expected to remain strong under President Park, it remains to be seen whether she will maintain the same linkage.

Moreover, while large majorities of South Koreans say they value the U.S.-ROK alliance, many South Koreans are resentful of U.S. influence and chafe when they feel their leaders offer too many concessions to the United States. South Koreans also tend to be wary of being drawn into U.S. policies that antagonize China. These critiques are particularly articulated by Korea’s progressive groups, who bitterly opposed much of President Lee’s policy agenda and his governing style. They can be expected to have the same attitudes toward President Park.

## **Historical Background**

The United States and South Korea have been allies since the United States intervened on the Korean Peninsula in 1950 and fought to repel a North Korean takeover of South Korea. Over 33,000 U.S. troops were killed and over 100,000 were wounded during the three-year conflict. On October 1, 1953, a little more than two months after the parties to the conflict signed an armistice agreement, the United States and South Korea signed a Mutual Defense Treaty, which provides that if either party is attacked by a third country, the other party will act to meet the common danger. The United States maintains about 28,500 troops in the ROK to supplement the 650,000-strong South Korean armed forces. South Korea deployed troops to support the U.S.-led military campaign in Vietnam. South Korea subsequently has assisted U.S. deployments in other conflicts, most recently by deploying over 3,000 troops to play a non-combat role in Iraq and over 300 non-combat troops to Afghanistan.

Beginning in the 1960s, rapid economic growth propelled South Korea into the ranks of the world’s largest industrialized countries. For nearly two decades, South Korea has been one of the

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<sup>18</sup> December 2009 CRS interview in Seoul.

United States' largest trading partners. Economic growth, coupled with South Korea's transformation in the late 1980s from a dictatorship to a democracy also has helped transform the ROK into a mid-level regional power that can influence U.S. policy in Northeast Asia, particularly the United States' approach toward North Korea.

## **North Korea in U.S.-ROK relations**

### **North Korea Policy Coordination**

Dealing with North Korea is the dominant strategic element of the U.S.-South Korean relationship. South Korea's growing economic, diplomatic, and military power has given Seoul a much more direct and prominent role in Washington's planning and thinking about how to deal with Pyongyang. One indicator of South Korea's centrality to diplomacy over North Korea is that no successful round of the Six-Party nuclear talks has taken place when inter-Korean relations have been poor.

### ***The Obama-Lee Joint "Strategic Patience" Approach***

From 2009-2012, U.S.-South Korean collaboration over North Korea was extremely close, after several years in which the two countries frequently had competing visions of how to handle North Korea. In effect, the Obama Administration and the Lee government adopted a joint approach toward North Korea, often called "strategic patience." In essence, strategic patience had four main components:

- keeping the door open to Six-Party Talks over North Korea's nuclear program but refusing to re-start them without a North Korean assurance that it would take "irreversible steps" to denuclearize;<sup>19</sup>
- insisting that Six-Party Talks and/or U.S.-North Korean talks must be preceded by North-South Korean talks on denuclearization and improvements in North-South Korean relations;
- gradually attempting to alter China's strategic assessment of North Korea; and
- responding to Pyongyang's provocations by tightening sanctions against North Korean entities, conducting a series of military exercises, and expanding U.S.-ROK-Japan trilateral cooperation.

Strategic patience could be described as a passive-aggressive approach that effectively was a policy of containing North Korea's proliferation activities, rather than rolling back its nuclear program. Indeed, underlying the approach is an expectation that North Korea will almost certainly not relinquish its nuclear capabilities. One drawback is that it has allowed Pyongyang to control the day-to-day situation. While Washington and Seoul wait to react to Pyongyang's moves, the criticism runs, North Korea has continued to develop its uranium enrichment program, solidified support from China, and embarked on a propaganda offensive designed to shape the

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<sup>19</sup> The Six-Party talks were held among China, Japan, North Korea, Russia, South Korea, and the United States between 2003 and 2008.



eventual negotiating agenda to its benefit. Many of President Park Geun-hye's proposed initiatives with North Korea appear designed to rectify these perceived shortcomings.

The strategic patience approach has involved elements of both engagement and pressure. The Obama and Lee governments tended to emphasize the latter during times of increased tension with North Korea. These periods occurred repeatedly since Lee's inauguration in February 2008. Most notably, they included a North Korean nuclear test in May 2009; North Korean long-range rocket launches in April 2009, April 2012, and December 2012; the March 2010 sinking of a South Korean naval vessel, the *Cheonan*; and the November 2010 North Korean artillery attack on the South Korean island of Yeonpyeong-do.<sup>20</sup> The latter incident was North Korea's first direct artillery attack on ROK territory since the 1950-1953 Korean War and served to harden South Korean attitudes toward North Korea. President Lee reportedly stated that he wanted to order a retaliatory air strike, but the existing rules of engagement—which he subsequently relaxed—and the existence of the U.S.-ROK military alliance restrained him.<sup>21</sup> Park Geun-hye has implied that South Korea's military response, which primarily consisted of launching about 80 shells at North Korea and holding large-scale exercises with the United States, was insufficient.

In contrast, the Obama and Lee governments tended to reach out to North Korea during more quiescent periods. North Korea responded—as it often does—more readily to Washington's overtures than to Seoul's. Had U.S.-North Korean engagement advanced further, it is possible that U.S.-South Korean cooperation would have been tested. One indication of this was the debate the two countries waged in 2011 and 2012 over whether to provide large-scale food aid to North Korea, which early in 2011 appealed for international aid.<sup>22</sup> South Korean officials indicated that their government would prefer that neither country provide large-scale assistance to North Korea unless Pyongyang changed its behavior.

Despite this reluctance, the Obama Administration pushed ahead in discussions with North Korea. The result was a February 2012 agreement, in which the United States promised to provide 240,000 metric tonnes (MT) of food assistance and North Korea agreed to allow international nuclear inspectors back to its Yongbyon nuclear facilities as well as to abide by a moratorium on nuclear activities and nuclear and missile tests. However, the United States halted implementation of the agreement after North Korea launched a long-range rocket in April.

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<sup>20</sup> On Yeonpyeong-do, over 150 shells fired by North Korea killed four South Koreans (two Marines and two civilians), wounded dozens, and destroyed or damaged scores of homes and other buildings. All 46 South Korean sailors on the *Cheonan* died. A multinational team that investigated the sinking, led by South Korea, determined that the ship was sunk by a North Korean submarine. The cause of the *Cheonan*'s sinking has become highly controversial in South Korea. While most conservatives believe that North Korea was responsible for explosion, many who lean to the left have criticized the investigation team as biased or argue that its methodology was flawed.

<sup>21</sup> "Lee Recalls Getting Tough with N.Korea," *Chosun Ilbo*, February 5, 2013.

<sup>22</sup> For more on the food aid debate, see CRS Report R40095, *Foreign Assistance to North Korea*, by Mark E. Manyin and Mary Beth Nikitin. During the U.S.-South Korea discussions over food aid, Congress debated an amendment proposed by Congressman Edward Royce to H.R. 2112, the FY2012 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, which would have prohibited the Administration from using the primary U.S. food aid program to send food assistance to North Korea. The Senate version of the bill, passed on November 1, 2011, contained no such measure. Participants in the House-Senate conference committee decided to strip the Royce amendment's tougher restrictions, replacing it with language (Section 741) that food assistance may only be provided if "adequate monitoring and controls" exist. President Obama signed H.R. 2112 (P.L. 112-55) into law on November 18, 2011.

## Inter-Korean Relations

Park has pledged to try to improve North-South relations, which deteriorated markedly after Lee's February 2008 inauguration. After 10 years of Seoul's "sunshine" policy of largely unconditioned engagement with North Korea, the Lee government entered office insisting on more reciprocity from and conditionality toward Pyongyang. Most importantly, the Lee government announced that it would review the initiation of new large-scale inter-Korean projects agreed to before Lee took office, and that implementation would be linked to progress in denuclearizing North Korea. In another reversal of his predecessors' policies, Lee's government was openly critical of human rights conditions in North Korea. Park appears to be continuing this approach, for instance, by backing efforts to launch a U.N. "commission of inquiry" to investigate and fully document Pyongyang's human rights abuses.

North Korea reacted to Lee's overall approach by unleashing a wave of invective against Lee and adopting a more hostile stance toward official inter-Korean activities. Inter-Korean relations have steadily worsened since then, to the point that by September 2010, nearly all of the inter-Korean meetings, hotlines, tours, exchanges, and other programs that had been established during the "sunshine" period have been suspended or severely curtailed. President Park has spoken of a desire to reverse this dynamic, for instance by relaxing or lifting the restrictions the Lee government imposed in May 2010 on nearly all forms of North-South interaction after the sinking of the *Cheonan*.

Polls of South Korean attitudes show widespread and increasing anger toward and concern about North Korea. Opinion toward North Korea hardened after the shelling of Yeonpyeong Island, with fewer Koreans expressing support for a return to the largely unconditional engagement with North Korea that occurred during the "sunshine policy" era. Moreover, the attack renewed long-dormant public discussions of whether South Korea should begin making public preparations for a future reuniting of the two Koreas. Previously, a loose consensus had prevailed in South Korea against openly discussing and planning for reunification in the short or medium term, because of fears of provoking Pyongyang and of the fiscal costs of absorbing the impoverished North. However, notwithstanding the hardening of attitudes toward North Korea, polls in 2011 and 2012 also showed continued ambivalence toward Lee's approach and a desire among many, if not most, South Koreans for their government to show more flexibility toward Pyongyang.

## South Korea's Regional Relations

Looking at their surrounding neighborhood, South Koreans sometimes refer to their country as a "shrimp among whales." South Korea's relations with China and Japan, especially the latter, are fraught with ambivalence, combining interdependence and rivalry. Despite these difficulties, trilateral cooperation among the three capitals has increased over the past decade, particularly in the aftermath of the 2008 global financial crisis. Since 2008, leaders of the three countries have met annually in standalone summits, established a trilateral secretariat in Seoul, signed an investment agreement, and in 2012 launched trilateral "C-J-K" FTA negotiations.<sup>23</sup>

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<sup>23</sup> From 1999 to 2007, trilateral summits were only held on the sidelines of the Association of Southeast Asian Nations' "Plus Three" summit (which included the 10 ASEAN countries plus China, Japan, and South Korea).

In late 2012, President Park decried the rise in South Korea-Japan and China-Japan tensions, which she warned could lead to unintended military clashes if left unchecked. To forestall this, she has proposed a “Northeast Asian Peace and Cooperation Initiative” that would involve Japan adopting a “correct understanding of history,” “forward-looking” leadership from regional and U.S. leaders that focuses on global and regional issues rather than bilateral spats, and “building a more enduring peace” on the Korean Peninsula.<sup>24</sup>

## South Korea-Japan Relations

U.S. policymakers have long voiced encouragement for enhanced South Korea-Japan relations. A cooperative relationship between the two countries, both U.S. treaty allies, and among the three is in U.S. interests because it arguably enhances regional stability, helps coordination over North Korea policy, and boosts each country’s ability to deal with the strategic challenges posed by China’s rise. However, despite increased cooperation, closeness, and interdependence between the South Korean and Japanese governments, people, and businesses over the past decade, mistrust on historical and territorial issues continues to linger. South Korea and Japan have competing claims to the small Dokdo/Takeshima islands in the Sea of Japan (called the East Sea by Koreans), and most South Koreans complain that Japan has not adequately acknowledged its history of aggression against Korea.<sup>25</sup> For more than three generations beginning in the late 19<sup>th</sup> century, Japan intervened directly in Korean affairs, culminating in the annexation of the Korean peninsula in 1910. Over the next 35 years, Imperial Japan all but attempted to wipe out Korean culture.<sup>26</sup> Among the victims were tens of thousands of South Korean “comfort women” who during the 1930s and 1940s were recruited, many if not most by coercive measures, into providing sexual services for Japanese soldiers.

President Lee came into office seeking to improve official South Korea-Japan relations, which had deteriorated markedly during the term of his predecessor, Roh Moo-hyun. Under Lee and a succession of Japanese leaders, Cabinet and head-of-state meetings, including reciprocal visits, became more routine. Cemented for the first time in years by a common strategic outlook on North Korea, trilateral South Korea-U.S.-Japan coordination over North Korea policy was particularly close. People-to-people ties blossomed, with tens of thousands of Japanese and Koreans traveling to the other country every day. The South Korean and Japanese militaries also stepped up their cooperation, including holding trilateral exercises with the United States. For the first three years of his term, Lee gave less public emphasis to flare-ups over history and the Dokdo/Takeshima territorial dispute.

However, South Koreans’ interest in forming significant new institutional arrangements with Japan is dampened by three factors. First, continued suspicions of Japan among the South Korean population place political limitations on how far and how fast Korean leaders can improve relations. Second, continued disagreements over Dokdo/Takeshima’s sovereignty continue to weigh down the relationship. Third, unlike Japan, South Korea generally does not view China as

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<sup>24</sup> Park Geun-hye, “A Plan for Peace in North Asia,” *Wall Street Journal Opinion Asia*, November 12, 2012.

<sup>25</sup> Since the end of World War II, South Korea has administered Dokdo/Takeshima, which the U.S. government officially calls the “Liancourt Rocks.”

<sup>26</sup> Many Koreans believe that the United States was complicit in this history, by reportedly informally agreeing in a 1905 meeting between U.S. Secretary of War William Taft and Japanese Prime Minister Taro Katsura that the United States would recognize Japan’s sphere of influence over Korea in return for Japan doing the same for the United States in the Philippines.

an existential challenge and territorial threat. South Korea also needs Chinese cooperation on North Korea. Accordingly, South Korean leaders tend to be much more wary of taking steps that will alarm China. A factor that could change this calculation is if China is seen as enabling North Korean aggression. Indeed, North Korean acts of provocation are often followed by breakthroughs in ROK-Japan relations, as well as in ROK-U.S.-Japan cooperation.

All three of these factors contributed to a dramatic downturn in South Korea-Japan relations in 2012. In May and again in June, the two sides were on the verge of signing a completed intelligence-sharing agreement long sought by the United States as a way to ease trilateral cooperation and dialogue. However, a firestorm of criticism against the pact in South Korea led the Lee government to cancel the signing minutes before it was to take place. Negotiations over a related deal on exchanging military supplies also broke down. Later that summer, President Lee made the first-ever visit by a South Korean president to Dokdo/Takeshima. Lee said his visit was in large measure a response to what he claimed was Japan's failure to adequately acknowledge and address the suffering of the World War II comfort women. Lee further upset many Japanese when news reports revealed negative comments he made about the Japanese Emperor in a town-hall setting. In response, Japanese leaders halted many forms of official dialogue for a time. Both President Park and new Japanese prime minister Shinzo Abe, who came to power in December 2012 in part due to the furor over Lee's actions, appear to have placed a priority on maintaining more stable bilateral relations. However, given the array of domestic forces opposed to raising South Korea-Japan relations to a new level, it is unclear whether the two governments will have the interest or capacity to do more than maintain *ad hoc* cooperation, such as in response to aggressive North Korean actions.

### South Korea-China Relations

Park Geun-hye appears to be placing a priority on improving South Korea's relations with China, which are generally thought to have been cool during Lee Myung-bak's tenure. China's rise influences virtually all aspects of South Korean foreign and economic policy. North Korea's growing economic and diplomatic dependence on China since the early 2000s has meant that South Korea must increasingly factor Beijing's actions and intentions into its North Korea policy. China's influence over North Korea has tended to manifest itself in two ways in Seoul. On the one hand, most South Korean officials worry that North Korea, particularly its northern provinces, is drifting into China's orbit. For those on the political left in South Korea, this was an argument against Lee's harder line stance toward inter-Korean relations, which they say has eroded much of South Korea's influence over North Korea. On the other hand, China's continued support for North Korea, particularly its perceived backing of Pyongyang after the Yeonpyeong Island shelling, has angered many South Koreans, particularly conservatives. Many South Korean conservatives also express concern that their Chinese counterparts have been unwilling to discuss plans for dealing with various contingencies involving instability in North Korea, a sentiment that could be tested by Park Geun-hye's call for establishing a trilateral strategic dialogue among Korea, the United States, and China.<sup>27</sup> China's treatment of North Korean refugees, many of whom are forcibly repatriated to North Korea, has also become a bilateral irritant.

Furthermore, South Korean concerns about China's rise have been heightened by China's increased assertiveness around East Asia in recent years, particularly its vocal opposition in 2010 to U.S.-South Korean naval exercises in the Yellow Sea. In 2011 and 2012, a bilateral dispute

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<sup>27</sup> Park Geun-hye, "Trustpolitik and the Making of a New Korea," November 15, 2012.

over usage rights in overlapping waters surrounding Ieodo Island (which the Chinese call Suyan Rock and the United States officially labels the Socotra Rock) was reignited by clashes between Chinese fishermen and the South Korean Coast Guard.<sup>28</sup> In one case in 2011, a Chinese fisherman stabbed a South Korean Coast Guard official to death. Thus far, the two governments have prevented these incidents from escalating; however, they appear to have fostered significant ill feelings among many South Koreans toward China.

Since China's 2001 entry into the World Trade Organization, China has emerged as South Korea's most important economic partner. Over 20% of South Korea's total trade is with China, twice the level for South Korea-U.S. and South Korea-Japan trade.<sup>29</sup> For years, China has been the number one location for South Korean firms' foreign direct investment. In 2012, the two countries agreed to start bilateral FTA negotiations. Yet, even as China is an important source of South Korean economic growth, it also looms large as an economic competitor. Indeed, fears of increased competition with Chinese enterprises have been an important motivator for South Korea's push to negotiate a series of FTAs with other major trading partners around the globe.

## Security Relations and the U.S.-ROK Alliance

The United States and South Korea are allies under the 1953 Mutual Defense Treaty. Under the agreement, U.S. military personnel have maintained a continuous presence on the peninsula since the conclusion of the Korean War and are committed to help South Korea defend itself, particularly against any aggression from the North. The United States maintains about 28,500 troops in the ROK. South Korea is included under the U.S. "nuclear umbrella," also known as "extended deterrence" that applies to other non-nuclear U.S. allies as well. In an October 2011 visit to South Korea, Secretary of Defense Leon Panetta reassured South Korea and Japan of the strength of the U.S. security commitment amidst uncertainty over the size of possible cuts to the U.S. military budget. Among other items, Panetta reiterated the Obama Administration's commitment to maintain the current U.S. troop level in Korea.<sup>30</sup>

Since 2009, the two sides have accelerated steps to transform the U.S.-ROK alliance, broadening it from its primary purpose of defending against a North Korean attack to a regional and even global partnership. At the same time, provocations from North Korea have propelled more integrated bilateral planning for responding to possible contingencies. Increasingly advanced joint military exercises have reinforced the enhanced defense partnership. According to U.S. officials, defense coordination at the working level as well as at the ministerial level has been consistent and productive. In June 2012, the two sides held their second so-called "2+2" meeting between the U.S. Secretary of State and Secretary of Defense and their South Korean counterparts. Among other policy areas, the joint statement emphasized new initiatives on cyber security and missile defense, and the United States reiterated its commitment to maintain current troop levels. The first ever "2+2" meeting in July 2010, which featured a visit to the Demilitarized Zone (DMZ) by Secretary of State Hillary Clinton and Secretary of Defense Robert Gates, commemorated the 60<sup>th</sup> anniversary of the Korean War. The massive joint military exercises held immediately after the

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<sup>28</sup> South Korea and China both claim that the submerged land feature is part of their respective exclusive economic zone (EEZ). South Korea has built a research observation station on Ieodo.

<sup>29</sup> Much of South Korea's exports to China are intermediate goods that ultimately are used in products exported to the United States and Europe.

<sup>30</sup> "Full Text of Joint Communiqué of ROK-U.S. Security Consultative Meeting," *Yonhap*, October 28, 2011.

meeting, featuring a U.S. aircraft carrier and F-22 aircraft, signaled to North Korea and others that the American commitment to Korea remains strong.

In the past, issues surrounding U.S. troop deployments have been a flashpoint for public disapproval of the military alliance. Recently, however, analysts point out that even potential irritants to the relationship have been dealt with skillfully by the military officials in charge. In 2011, United States Forces Korea (USFK) and South Korean environmental officials worked expeditiously to address public concern about buried chemicals on U.S. military bases from the post-Korean War era. Also in 2011, the USFK handed over a U.S. soldier accused of raping a South Korean woman to the Korean authorities, in addition to issuing high-level apologies and pledging full cooperation. Although both of these examples have drawn criticism and sparked renewed interest in revising the U.S.-ROK status of forces agreement (SOFA), it appears as though officials on both sides have been able to quell distrust of the U.S. military among the Korean public.<sup>31</sup>

### **Budgetary and Operational Challenges**

Despite these indicators of strength, the alliance faces a host of significant challenges in the months and years ahead. Delays and increasing price tags have slowed the implementation of agreements to relocate the U.S. troop presence in South Korea. (See “U.S. Alliance and ROK Defense Reform Plans” below.) Differences over burden sharing remain, but analysts note that these issues tend to be prevalent in all alliance relationships. Although the political atmospherics of the alliance have been positive, defense analysts note that the Lee Administration slowed significantly the defense budget increases planned under the earlier Roh Administration.

### ***Congressional Concern about U.S. Troop Deployments***

In 2011, some Members of Congress raised strong concerns about existing plans to relocate U.S. bases in South Korea and “normalize” the tours of U.S. troops there, including longer stays with family members accompanying them. In May 2011, Senators Carl Levin, John McCain, and James Webb issued a statement that urged a reconsideration of the existing plans for U.S. military presence in the Asia Pacific, including the current agreements in South Korea. A Government Accountability Office (GAO) report requested by Members of the Senate Appropriations Committee released in May 2011 concluded that the Department of Defense had not demonstrated a “business case” to justify the tour normalization initiative, nor considered alternatives.<sup>32</sup> In June 2011, the Senate Armed Services Committee passed amendments to the 2012 National Defense Authorization Act (S. 1253) that prevents the obligation of any funds for tour normalization until further reviews of the plan are considered and a complete plan is provided to Congress. The National Defense Authorization Act for Fiscal Year 2013 (H.R. 4310/P.L. 112-239) includes a provision (Section 2107) that continues to prohibit funds for tour normalization. Critics of the Senators’ call to overhaul existing plans say that such changes could

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<sup>31</sup> SOFAs establish the framework under which U.S. military personnel operate in a foreign country, addressing how the domestic laws of the foreign jurisdiction shall be applied toward U.S. personnel while in that country. For more, see CRS Report RL34531, *Status of Forces Agreement (SOFA): What Is It, and How Has It Been Utilized?*, by R. Chuck Mason.

<sup>32</sup> Report found at <http://www.gao.gov/products/GAO-11-316>.

restrict U.S. military capabilities and readiness as well as jeopardize hard-fought agreements designed to make the U.S. military presence more politically sustainable in South Korea.<sup>33</sup>

Testimony by Administration and military officials in 2012 appeared to be mindful of congressional concern about the cost of tour normalization. During his confirmation hearing, Assistant Secretary of Defense for Asian and Pacific Security Affairs Mark Lippert emphasized that tour normalization, while desirable, should be carefully considered with the costs of implementation in mind. In March 2012, in testimony before the House Armed Services Committee, General James D. Thurman, commander of U.S. Forces Korea, said that tour normalization is not affordable at this time and that he was content to keep accompanied tours at their current level.

### U.S. Alliance and ROK Defense Reform Plans

Current security developments are taking place in the context of several concurrent defense plans. The June 2009 Obama-Lee summit produced the broadly conceived “**Joint Vision for the Alliance**,” which promised to enhance and globalize future defense cooperation. After the decision to delay the transfer of wartime operational control (Opcon) from U.S. to ROK forces, the operational “**Strategic Alliance 2015**” roadmap (announced in September 2010) outlined the new transition, including a path forward for improvements in ROK capabilities and changes U.S. troop relocation and tour normalization. The U.S. military is also undergoing a broad transformation of its forces in the region; the 8<sup>th</sup> Army is moving toward becoming a war fighting headquarters that can deploy to other areas of the world while still serving as a deterrent to any possible aggression from North Korea.<sup>34</sup>

Meanwhile, South Korea’s **Defense Reform 2020** bill passed by the National Assembly in 2006 laid out a 15-year, 621 trillion *won* (about \$550 million) investment that aimed to reduce the number of ROK troops while developing a high-tech force and strengthening the Joint Chiefs of Staff system. In addition, a plan known as “**Defense Reformation Plan 307**,” is intended to enhance collaboration among the ROK military branches. Driven by the North Korean provocations in 2010, the new “proactive deterrence” approach calls for a more flexible posture to respond to future attacks, as opposed to the “total war” scenario that has driven much of Seoul’s defense planning in the past. However, political wrangling in the National Assembly blocked the passage of a set of defense reform bills in April 2012, leaving the future of reform unclear. The bills, which focused on overhauling the military command system, have been pending in the parliamentary body for over a year. In addition, the budget passed by the National Assembly in January 2013 cut proposed funding for military procurement but still raised the overall defense budget by 3.8% over 2012 levels.

The “proactive deterrence” posture—in other words, a greater willingness among South Korean leaders to countenance the use of force against North Korea—has made some analysts and planners more concerned about the possibility that a small-scale North Korean provocation could escalate. Former President Lee has said that after the Yeonpyeong-do attack, he asked China to tell North Korea that Seoul would respond to a future attack by mobilizing its military and by retaliating against North Korea’s supporting bases, not just the source of the attack. Lee also

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<sup>33</sup> Bruce Klingner, “Proposed Re-Realignment for Northeast Asia Ignores Strategic Realities,” *Heritage Foundation WebMemo* #3262, May 18, 2011.

<sup>34</sup> “U.S. Army in South Korea Begins Transformation of Forces,” *Stars and Stripes*. August 25, 2010.

relaxed the rules of engagement to allow frontline commanders greater freedom to respond to a North Korean attack without first asking permission from the military chain of command.<sup>35</sup> U.S. defense officials insist that the exceedingly close day-to-day coordination in the alliance ensures that U.S.-ROK communication would be strong in the event of a new contingency. In July 2011, General Walter Sharp, then-U.S. commander of the Combined Forces Command (CFC) in South Korea, confirmed to press outlets that the alliance had developed coordinated plans for countermeasures against North Korean aggression.<sup>36</sup>

### *The Relocation of U.S. Forces Korea (USFK)*

In 2004, Secretary of Defense Donald Rumsfeld authorized a realignment program to reduce and relocate U.S. forces in South Korea. Under the Rumsfeld program, the Pentagon withdrew a 3,600-person combat brigade from the Second Division and sent it to Iraq. The Rumsfeld plan called for the U.S. troop level in South Korea to fall from 37,000 to 25,000 by September 2008. However, in 2008, Secretary of Defense Gates halted the withdrawals at the level of 28,500. The realignment plan reflects the shift toward a supporting role for U.S. Forces Korea (USFK) and a desire to resolve the issues arising from the location of the large U.S. Yongsan base in downtown Seoul.

The U.S. Forces Korea (USFK) base relocation plan has two elements. The first envisages the transfer of a large percentage of the 9,000 U.S. military personnel at the Yongsan base to U.S. Army Garrison (USAG) Humphreys, which is located near the city of Pyeongtaek some 40 miles south of Seoul. The second element involves the relocation of about 10,000 troops of the Second Infantry Division from the demilitarized zone to areas south of the Han River (which runs through Seoul). The end result would be that USFK's sites would decline to 48, from the 104 it maintained in 2002. The bulk of U.S. forces would be clustered in the two primary "hubs" of Osan Air Base/USAG Humphreys and USAG Daegu that contain five "enduring sites" (Osan Air Base, USAG Humphreys, US AG Daegu, Chinhae Naval Base, and Kunsan Air Base). A new joint warrior training center, north of Seoul, is to be opened.<sup>37</sup>

The relocations to Pyeongtaek originally were scheduled for completion in 2008, but have been postponed several times because of the slow construction of new facilities at Pyeongtaek and South Korean protests of financial difficulties in paying the ROK share of the relocation costs. The original cost estimate was over \$10 billion; South Korea was to contribute \$4 billion of this. Estimates in 2010 placed the costs at over \$13 billion. In congressional testimony in September 2010, U.S. officials demurred from providing a final figure on the cost of the move, but confirmed that the South Koreans were paying more than the original \$4 billion.<sup>38</sup> The first battalion-sized element relocated from a base in Uijeongbu, north of Seoul, to USAG Humphreys in late December 2012.<sup>39</sup> Some individuals involved with the move speculate that it will not be completed until 2020.

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<sup>35</sup> "Lee Recalls Getting Tough with N.Korea," *Chosun Ilbo*, February 5, 2013.

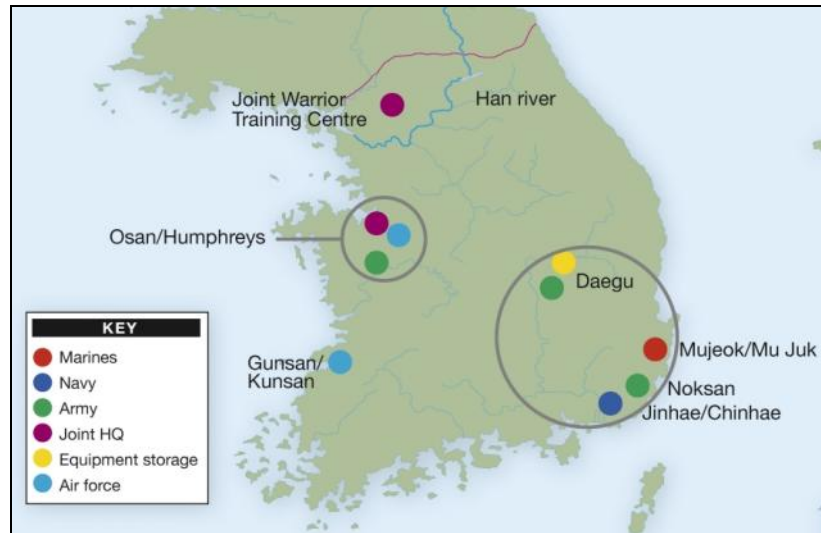
<sup>36</sup> "U.S., Seoul Secure Plans for Potential Counterattack," *Wall Street Journal*, July 7, 2011.

<sup>37</sup> "US-South Korea: a New Security Relationship," *Jane's Intelligence Weekly*, January 18, 2010.

<sup>38</sup> "Senate Armed Services Committee Holds Hearing on Security Situation on the Korean Peninsula," *CQ Congressional Transcripts*, September 16, 2010.

<sup>39</sup> "US Communication Battalion to Relocate to Camp Humphreys," *Korea Times*, December 27, 2012.



**Figure 2. USFK Bases After Realignment Plan Is Implemented**

Source: Jane's Sentinel Security Assessment - China and Northeast Asia, date posted April 15, 2010.

### *Tour Normalization*

Another complicating factor in the development of the Yongsan Relocation Plan is the announcement by the Pentagon in 2008 that U.S. military families, for the first time, would be allowed to join U.S. military personnel in South Korea. Most U.S. troops in South Korea serve one-year unaccompanied assignments. The goal was to phase out one-year unaccompanied tours in South Korea, replacing them with 36-month accompanied or 24-month unaccompanied tours. Supporters of the plan argue that accompanied tours create a more stable force because of longer, more comfortable tours. Eventually, the “normalization” of tours is estimated to increase the size of the U.S. military community at Osan/Humphreys near Pyongtaek to over 50,000. However, in January 2013, USFK released a statement saying, “while improvements to readiness remain the command’s first priority, tour normalization is not affordable at this time.”<sup>40</sup> The aforementioned 2013 SASC report criticized the policy change as expensive and questioned the legality of how DoD calculated the housing allowance. The National Defense Authorization Act for FY2013 carries over the freeze on funding for tour normalization from the FY2012 bill.

### *Cost Sharing*

Related to the alliance transformation plans is the expiration in 2013 of the 2009 U.S.-South Korean Special Measures Agreement (SMA), under which South Korea offsets the cost of stationing U.S. forces in Korea. According to the 2013 SASC report, U.S. non-personnel costs in South Korea totaled about \$1.1 billion in 2012. In 2012, SMA payments totaled 836 billion won (\$765 million). In combination with that sum, other compensation outside the SMA (such as the South Korea contribution to the relocation plans) provides for about 40%-45% of the total non-personnel stationing costs for U.S. troop presence.<sup>41</sup> During U.S.-ROK military negotiations in

<sup>40</sup> Ashley Rowland, “USFK: Program to move families to Korea ‘not affordable at this time,’” *Stars and Stripes*, January 8, 2013.

<sup>41</sup> Figures provided by officials in Special Measures Agreement program at U.S. Forces Korea through e-mail (continued...)

recent years, Pentagon officials called for South Korea to increase its share to at least 50%. The SMA talks are likely to confront budgetary headwinds in both countries. According to the 2013 SASC report, South Korean SMA totals have not kept pace with rising U.S. costs. The report said that between 2008 and 2012, South Korea's contributions grew by about \$42 million, while U.S. non-personnel costs increased by over \$500 million.

### *Opcon Transfer*

The United States has agreed to turn over the wartime command of Korean troops to Seoul later this decade. Under the current arrangement, which is a legacy of U.S. involvement in the 1950-1953 Korean War, South Korea's soldiers would be under the command of U.S. forces if there were a war on the peninsula. The plan to transfer wartime operational control was undertaken to recognize South Korea's advances in economic and military strength since the Korean War and is seen by many as important for South Korean sovereignty. In 2007, Secretary Rumsfeld accepted a proposal by then-South Korean President Roh Moo-hyun to set up separate South Korean and U.S. military commands by April 2012. A U.S.-R.O.K. operational control agreement will dismantle the U.S.-R.O.K. Combined Forces Command (CFC), which has been headed by the U.S. commander in Korea. Separate U.S. and R.O.K. military commands will be established. In accord with the plan, a new U.S. Korea Command (KORCOM) will be established. Under the Opcon agreement, a bilateral Military Cooperation Center will be responsible for planning military operations, joint military exercises, logistics support, and intelligence exchanges, and assisting in the operation of the communication, command, control, and computer systems. The tensions with North Korea in the winter and spring of 2013 highlighted concerns about the Opcon transfer, although South Korean and U.S. defense officials say the plans remain on track.

At their June 2010 summit, Presidents Obama and Lee announced their decision to delay the transfer of Opcon by three years, until 2015. Although the decision was couched as sending a strong signal to North Korea following the sinking of the *Cheonan*, the agreement followed months of debate in Seoul and Washington about the timing of the transfer. Many South Korean and U.S. experts questioned whether the South Korean military possesses the capabilities—such as a joint command and control system, sufficient transport planes, and amphibious sea lift vessels—to operate effectively as its own command by the original transfer date of 2012. U.S. officials stress, however, that the transfer was militarily on track before the political decision to postpone. Opposition to the transfer in some quarters in Seoul may reflect a traditional fear of abandonment by the U.S. military.

### *The “Strategic Flexibility” of USFK*

In 2007 and 2008, U.S. commanders in South Korea stated that the future U.S. role in the defense of South Korea would be mainly an air force and naval role. The ROK armed forces today total 681,000 troops, with nearly 550,000 of them in the Army and around 65,000 each in the Air Force and Navy. Since 2004, the U.S. Air Force has increased its strength in South Korea through the regular rotation into South Korea of advanced strike aircraft. These rotations are not a permanent presence, but the aircraft often remain in South Korea for weeks and sometimes months for training.

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(...continued)

correspondence with CRS.

Since the early 2000s, U.S. military officials have expressed a desire to deploy some U.S. forces in South Korea to areas of international conflicts under a doctrine of “strategic flexibility.” The South Korean government of Roh Moo-hyun resisted this idea, largely for fear it might entangle South Korea in a possible conflict between the United States and China. In the mid-2000s, the two governments reached an agreement in which South Korea recognized the United States’ intention to be able to deploy its forces off the Peninsula, while the United States in turn recognized that the troops’ return to South Korea would be subject to discussion. Among other elements, the compromise seems to imply that in an off-Peninsula contingency, U.S. forces might deploy but not operate from South Korea.

### ***South Korean Defense Industry and Purchases of U.S. Weapons***

South Korea is a major purchaser of U.S. weapons, taking delivery of \$540 million worth of U.S. arms in calendar year 2011. The country is regularly among the top customers for Foreign Military Sales (FMS).<sup>42</sup> Although South Korea generally buys the majority of its weapons from the United States, European and Israeli defense companies also compete for contracts; Korea is an attractive market because of its rising defense expenditures. Boeing and Lockheed Martin are bidding with the F-15SE and F-35A, respectively, for a \$7.7 billion contract to provide South Korea’s next fighter aircraft. The Park Administration is expected to make a final decision in the first half of 2013 on the fighter competition, which also includes the Eurofighter Typhoon.<sup>43</sup> South Korea’s defense ministry has said that it will prioritize its defense systems against North Korea’s missile and nuclear threats, including Aegis combat destroyers, missile interceptors, and early warning radars.<sup>44</sup> In response to recent attacks, Seoul has deployed precision-guided missiles near the DMZ<sup>45</sup> and is currently developing a next generation multiple launch rocket system to be placed near the Northern Limit Line, the line that South Korea says is the two Koreas’ maritime boundary off the west coast of the Peninsula.<sup>46</sup>

The U.S. Defense Security Cooperation Agency in December 2012 proposed the sale of four Global Hawk unmanned aerial vehicles (UAVs) to South Korea at a total cost of \$1.2 billion. Given concerns that the sale could violate the Missile Technology Control Regime (MTCR) and non-proliferation norms, observers have called on the Obama Administration to ensure that the Global Hawks are used strictly for reconnaissance and are not armed.<sup>47</sup> Currently, the South Korean military only operates reconnaissance UAVs, but the Ministry of National Defense is budgeting \$447 million to indigenously develop a combat UAV by 2021.<sup>48</sup> The revised ballistic missile guidelines also increased the maximum allowable payload for South Korean UAVs to from 500 kg to 2,500 kg (5,500 lbs.), but the ranges are not limited by any international agreements.

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<sup>42</sup> Joint United States Military Affairs Group—Korea Mission Brief. August 18, 2010.

<sup>43</sup> Eun-joo Lee, “Choice of Fighter Jets Pushed to 2013,” *JoongAng Daily*, December 18, 2012.

<sup>44</sup> “South Korea Pulls Back from Original Defense Spending Plan Amid Economic Woes,” *Yonhap News*. September 27, 2009.

<sup>45</sup> “Seoul Deploys Precision-Guided Missiles Targeting Pyongyang,” *Korea Herald*. June 28, 2011.

<sup>46</sup> “Next-Generation MLRS Named ‘Cheonmu,’” *KBS*. June 28, 2011.

<sup>47</sup> “Drones for South Korea,” *New York Times*, Editorial. December 29, 2012.

<sup>48</sup> Song Sang-ho, “U.S. Agrees to Extend Seoul’s Ballistic Missile Range: Reports,” *Korea Herald*, September 23, 2012.

Korea's Defense Reform 2020 legislation emphasizes the development of indigenous capabilities by increasing the percentage of funds allocated to defense research and development (R&D).<sup>49</sup> South Korea competes internationally in the armored vehicle, shipbuilding, and aerospace industries. Of particular note is the T-50 Golden Eagle, a trainer and light fighter aircraft developed in conjunction with Lockheed Martin.<sup>50</sup>

The 110<sup>th</sup> Congress passed legislation that upgraded South Korea's status as an arms purchaser from a Major Non-NATO Ally to the NATO Plus Three category (P.L. 110-429), which changed the classification to NATO Plus Four. This upgrade establishes a higher dollar threshold for the requirement that the U.S. executive branch notify Congress of pending arms sales to South Korea, from \$14 million to \$25 million. Congress has 15 days to consider the sale and take legislative steps to block the sale compared to 50 days for Major Non-NATO Allies.

### ***South Korea's Deployment to Afghanistan***

After withdrawing its initial deployment of military personnel to Afghanistan in 2007, South Korea sent a second deployment, consisting of troops and civilian workers who are staffing a Provincial Reconstruction Team (PRT) in Parwan Province, located north of Kabul.<sup>51</sup> In February 2010, the National Assembly approved and funded the deployment of over 300 Army personnel to protect 100 Korean civilian reconstruction workers for a two-year mission. Forty police officers were also dispatched. The full ROK Army contingent was in Afghanistan from June 2010 until the end of 2012. A smaller force of 70 soldiers is to remain in 2013 to protect the civilians in the PRT.

### **South Korea-Iran Relations<sup>52</sup>**

In December 2012, the Obama Administration granted South Korea a 180-day extension of its exemption from U.S. sanctions on Iran as a result of South Korea's curtailing of oil imports from Iran. P.L. 112-81, the National Defense Authorization Act for Fiscal Year 2012, places strict limitations on the U.S. operations of foreign banks that conduct transactions with Iran's Central Bank. Foreign banks can be granted an exemption from sanctions if the President certifies that the parent country of the bank has significantly reduced its purchases of oil from Iran. South Korea is one of the largest importers of Iranian oil. Following extensive negotiations between the Obama and Lee governments in early 2012, South Korean imports of Iranian oil fell sharply. For the first eleven months of 2012, crude oil imports of from Iran fell by around 40% compared with the same period in 2011.

Over the past decade, growing concerns over Iran's nuclear program have led to increased U.S. scrutiny of South Korea's longstanding trade with and investments in Iran. South Korea is one of

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<sup>49</sup> "South Korea Defense Budget," *Jane's Defence Budgets*. December 14, 2009.

<sup>50</sup> "Korea's T-50 Spreads Its Wings," *Defense Industry Insider*. September 13, 2010.

<sup>51</sup> In 2007, South Korean President Roh Moo-hyun withdrew South Korea's initial deployment of 200 non-combat military personnel from Afghanistan after the Taliban kidnapped South Korean missionaries. The South Korean government reportedly paid a sizeable ransom to the Taliban to secure the release of kidnapped South Korean Christian missionaries, reported by one Taliban official to be \$20 million.

<sup>52</sup> For more information, see CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman.

the most important customers for Iranian oil.<sup>53</sup> Over the past decade, a number of South Korean conglomerates (called *chaebol*) have received significant contracts to build or service large infrastructure projects in Iran, including in Iran's energy sector. Additionally, Iran has been a significant regional hub for thousands of smaller South Korean manufacturers, which ship intermediate goods to Iran that are then assembled into larger units and/or re-exported to other Middle Eastern countries.

## Economic Relations

South Korea and the United States are major economic partners. In 2012, two-way trade between the two countries totaled around \$100 billion (see **Table 1**), making South Korea the United States' seventh-largest trading partner. For some western states and U.S. sectors, the South Korean market is even more important. South Korea is far more dependent economically on the United States than the United States is on South Korea. In 2012, the United States was South Korea's third-largest trading partner, second-largest export market, and the third-largest source of imports. It was among South Korea's largest suppliers of foreign direct investment (FDI).

As both economies have become more integrated with the world economy, economic interdependence has become more complex and attenuated, particularly as the United States' economic importance to South Korea has declined relative to other major powers. In 2003, China for the first time displaced the United States from its perennial place as South Korea's number one trading partner. In the mid-2000s, Japan overtook the United States, and since that time South Korean annual trade with the 27-member European Union has caught up with ROK-U.S. trade.

In October 2011, the House and Senate passed H.R. 3080, the United States-Korea Free Trade Agreement Implementation Act, which was subsequently signed by President Obama.<sup>54</sup> The law authorized the President to implement the KORUS FTA by an exchange of notes with South Korea, after he determined that South Korea had taken the necessary measures to implement its obligations under the agreement. On March 6, 2012, the President issued a proclamation ordering federal agencies to implement the KORUS FTA, and the agreement entered into force on March 15, 2012. The George W. Bush and Roh Administrations initiated the KORUS FTA negotiations in 2006 and signed an agreement in June 2007.

## Implementation of the KORUS FTA

Upon the date of implementation of the KORUS FTA, 82% of U.S. tariff lines and 80% of South Korean tariff lines were tariff free in U.S.-South Korean trade, whereas prior to the KORUS FTA, 38% of U.S. tariff lines and 13% of South Korean tariff lines were duty free. By the tenth year of the agreement, the figures will rise to an estimated 99% and 98%, respectively, with tariff elimination occurring in stages and the most sensitive products having the longest phase-out periods. Non-tariff barriers in goods trade and barriers in services trade and foreign investment are to be reduced or eliminated under the KORUS FTA.

At the time of this writing, the KORUS FTA had been in force for just over one year; therefore it is too early to ascertain its impact on U.S.-South Korean bilateral trade. Nevertheless, **Table 1**

<sup>53</sup> Iran data from Economist Intelligence Unit, *Iran Country Report*, April 2012.

<sup>54</sup> The House vote was 278-151. In the Senate, the vote was 83-15.

below presents U.S.-South Korea merchandise trade data for selected years, including the first 11 months of 2012 (the latest data available) and comparative data for the corresponding period in 2011. The data indicate that total trade grew by 1.6% in 2012 from 2011, continuing a trend that began in 2010 as the United States, South Korea, and other major economies recovered from the global downturn. U.S. exports to South Korea declined by 2.8% during that period, while U.S. imports increased by 4.1%.

**Table 1. Annual U.S.-South Korea Merchandise Trade,  
Selected Years**

(billions of U.S. dollars)

Year	U.S. Exports	U.S. Imports	Trade balance	Total trade
2005	26.2	43.2	-17.0	69.4
2006	30.8	44.7	-13.9	75.5
2007	33.0	45.4	-12.4	78.4
2008	33.1	46.7	-13.6	79.8
2009	27.0	38.7	-11.7	65.7
2010	38.0	48.9	-10.9	86.9
2011	43.5	56.6	-13.1	100.1
2012	42.3	58.9	-16.6	101.2
Major U.S. Export Items	Semiconductor circuits & manufacturing equipment; specialized instruments; civilian aircraft & parts; chemicals; coal products; corn & wheat.			
Major U.S. Import Items	Motor vehicles; Cell phones; motor vehicle parts; semiconductor circuits & printed circuit boards; iron & steel; tires; motor oil & jet fuel.			

**Sources:** Global Trade Information Services.

As part of the implementation process, 19 binational committees and working groups were formed to implement the various chapters of the agreement. About one half of those bodies have met at least once since the March 15, 2012, entry-into-force date. The committees on pharmaceuticals and medical devices and the committee on small and medium-sized enterprises have met twice.

### ***Autos***

A major issue in the negotiations leading up to the KORUS FTA concerned access to the South Korean market for exports of U.S.-made cars. Under the agreement, the U.S. tariff of 2.5% on South Korean cars will be eliminated in the fifth year of the agreement. The South Korean tariff of 8% was reduced to 4% when the agreement entered into force and will be eliminated completely in the fifth year of the agreement. South Korea also agreed to allow U.S.-based car manufacturers to sell in South Korea up to 25,000 cars per year per manufacturer as long as they met U.S. safety and environmental standards. This concession addressed U.S. manufacturers' concern that having to meet South Korean standards added costs to the production of cars for the South Korean market, placing them at a price disadvantage vis-a-vis domestic producers.

In 2012, sales of U.S.-made cars in South Korea increased sharply. For example, in 2012, sales of cars made by Ford increased 22.5%, sales of cars made by Chrysler increased 24.3%, and sales of

cars made by Cadillac increased 32.4%, compared to sales in 2011.<sup>55</sup> It is not clear to what degree the increases in sales can be attributed to the KORUS FTA or to other factors. The American Chamber of Commerce in Korea has claimed that lower tariffs and consumption taxes on U.S. cars and the concession on safety and environmental standards have allowed manufacturers to reduce prices on their cars in the South Korean market, making them more competitive.<sup>56</sup>

Two auto-related issues have emerged as the two sides implement the KORUS FTA. In one case, the South Korean government has proposed introducing new safety regulations for replacement parts even if the cars in which they would be used have qualified under the 25,000 equivalency concession. Assistant USTR (AUSTR) Wendy Cutler indicated that the issue is the subject of discussion between the two sides. In the second case, the South Korean government has proposed to introduce a program to reward South Korean buyers of low-emission vehicles with a tax credit and to penalize buyers of high-emission vehicles with a tax penalty (the so-called “*bonus-malus*” system). U.S. and European car manufacturers claim that this tax program would make it more difficult for them to sell their cars in South Korea and would undermine the benefits that were negotiated under the KORUS FTA and the Korea-EU FTA, which went into effect in 2011. According the AUSTR Wendy Cutler, South Korea agreed to a two-year grace period and to consult further on the issue.<sup>57</sup>

### *Pharmaceuticals and Medical Devices*

Under the KORUS FTA, South Korea agreed to form an independent review board (IRB) that would allow appeals from pharmaceutical and medical device manufacturers on South Korean government policies pertaining to reimbursement under the government health insurance program. South Korea has established an IRB. However, the government was going to allow up to 60 days for the review. The government had indicated that the window would apply to all decisions, including reimbursement prices for individual medicines. U.S. manufacturers said that 60 days would be too long and could inhibit their ability to market their products. South Korea agreed to make the decision period 20 days on individual pricing decisions and 60 days for decisions on overall reimbursement policies. The issue remains the subject of additional discussions.<sup>58</sup>

### *Other Issues*

Both South Korea and the United States have made it a priority to ensure that small- and medium-sized companies are able to take advantage of the KORUS FTA. They have formed a binational committee to explore efforts to do so.

U.S. officials will be monitoring South Korea’s implementation of a provision under the KORUS FTA that allows for the transfer of financial and other data freely from one country to the other. This provision is to go into effect two years after the agreement entered into force (i.e., March 15, 2014).<sup>59</sup>

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<sup>55</sup> Data provided by the Korean Automobile Importers and Distributors Association (KAIDA).

<sup>56</sup> American Chamber of Commerce in Korea, *Early Successes Under the KORUS FTA*, January 14, 2013.

<sup>57</sup> This information was provided by Assistant U.S. Trade Representative Wendy Cutler during a 2012 meeting.

<sup>58</sup> Ibid.

<sup>59</sup> Ibid.

In 2011 and 2012, members of South Korea's largest opposition party, the Democratic United Party (DUP) called for renegotiating parts of the KORUS FTA. The most prominent issue for the DUP was the agreement's investor-state dispute provisions.<sup>60</sup> However, the push to renegotiate this and other parts of the KORUS FTA appears to have faded significantly following Park's defeat of the DUP's presidential candidate in December, combined with the DUP's disappointing showing in parliamentary elections earlier in the year.

Some analysts have called on South Korea to join the 11-nation Trans-Pacific Partnership (TPP) free trade agreement negotiations, in which the United States is participating. The TPP talks are a key element of the Obama Administration's strategy of "rebalancing" to Asia by pushing for more internationally-based rules and norms in the region. To date, South Korea has not indicated a desire to join the talks, preferring to concentrate on implementing the recently enacted FTAs with the United States and European Union, and on negotiating a bilateral FTA with China and a trilateral FTA with China and Japan.

### South Korea's Economic Performance

South Korea has recorded relatively strong economic growth since the global financial crisis began in late 2008. After GDP real growth declined to 0.2% in 2009, the South Korean economy roared back and grew by 6.2% in 2010. Initially, the crisis hit the South Korean economy hard because of its heavy reliance on international trade and its banks' heavy borrowing from abroad. The Lee government took strong countermeasures to blunt the crisis' impact, engaging in a series of fiscal stimulus actions worth about 6% of the country's 2008 GDP, by some measures the largest such package in the Organization for Economic Cooperation and Development (OECD) group of industrialized countries. The Bank of Korea (BOK) also acted aggressively, lowering interest rates from over 5% to a record low 2% and engaging in a range of other operations, estimated by the OECD to be worth over 2.5% of GDP, designed to infuse liquidity in the Korean economy. The BOK negotiated currency swap agreements with the United States, Japan, and China.<sup>61</sup> The South Korean *won*, after depreciating to around 1,500 *won*/dollar—a fall of nearly one-third from early 2008 to early 2009—has gradually strengthened against the dollar, to the 1,000-1,100 *won*/dollar range. The *won*'s depreciation in 2008 and 2009 helped to stimulate South Korea's economic recovery by making its exports cheaper relative to many other currencies, particularly the Japanese *yen*.

Since the second half of 2010, South Korean real GDP growth has slowed, in part due to a slowdown in its foreign trade and the *won*'s appreciation. South Korea's economy is highly dependent upon capital inflows and exports, the latter of which are equal to around half of the country's annual GDP. Thus, South Korean officials have expressed concern that their country could be hit hard by a recurrence of a major European debt crisis, the possibility of a "double-dip" recession in the United States, and a slowing of growth in China. GDP growth in 2011 was 3.6% and is estimated to have fallen close to 2% for 2012.

<sup>60</sup> Similar to other U.S. FTAs, the KORUS FTA establishes procedures for the settlement of investor-state disputes involving investments covered under the agreement where the investor from one partner-country alleges that the government of the other partner-country is violating his rights under the FTA. The FTA stipulates that the two parties should try to first resolve the dispute through consultations and negotiations. But, if that does not work, the agreement provides for arbitration procedures and the establishment of tribunals.

<sup>61</sup> The October 2008 swap agreement with the U.S. Federal Reserve gave Bank of Korea access to up to \$30 billion in US dollar funds in exchange for *won*.



Although South Korea's economic performance may look favorable to many around the world, former President Lee's handling of economic issues has come under criticism from many inside South Korea. Complaints have risen in recent years that only Korea's rich individuals and large conglomerates (called *chaebol*) have benefitted from the country's growth since the 2008-2009 slowdown. The 2012 presidential election was largely fought over the issues of governance (in the wake of a number of corruption scandals), social welfare, and rising income inequality. Leading figures in both parties, as well as President Park and former President Lee, have proposed ways to expand South Korea's social safety net. Growth is expected to be in the 3% range for 2013. As mentioned above, South Korea's 2012 presidential campaign focused on economic and social welfare issues. Park Geun-hye has made economic democratization and raising South Korea's science and technology "to world-class levels" two of her priorities.<sup>62</sup>

## Nuclear Energy and Non-Proliferation Cooperation

### Bilateral Nuclear Energy Cooperation<sup>63</sup>

The United States and South Korea have cooperated in the peaceful use of nuclear energy for over 50 years.<sup>64</sup> This cooperation includes commercial projects as well as R&D work on safety, safeguards, advanced nuclear reactors, and fuel cycle technologies. As mentioned in the introductory section of this report, the two countries have announced a two-year extension of their bilateral nuclear cooperation agreement, often referred to as a "123 agreement," which expires in March 2014.<sup>65</sup> An extension of the agreement would require a positive vote of approval by both Houses of Congress in order to come into effect.

The existing U.S.-South Korean civilian nuclear cooperation agreement was concluded before the current requirements under section 123a of the Atomic Energy Act (as amended) (AEA) were enacted. Therefore, the existing agreement does not meet all of the AEA's requirements. Thus, an extension of the current agreement would need to be submitted as an "exempted" agreement to Congress, and subject to the positive approval of Congress before it could enter into force. The President may exempt an agreement for cooperation from any of the requirements in Section 123a if he determines that the requirement would be "seriously prejudicial to the achievement of U.S. non-proliferation objectives or otherwise jeopardize the common defense and security." Under the AEA, the agreement would then be subject to a congressional review period totaling 90 days of continuous session, to be followed by a joint resolution of approval or disapproval, which would be subject to expedited procedures, including time limits for committee and floor consideration as well as a prohibition on amendments.

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<sup>62</sup> Park Geun-hye Inauguration Address, "Opening a New Era of Hope," February 25, 2013.

<sup>63</sup> Written by Mary Beth Nikitin, Specialist in Nonproliferation.

<sup>64</sup> The original agreement for civilian nuclear cooperation was concluded in 1956, and amendments were made in 1958, 1965, 1972, and 1974. See also CRS Report R41032, *U.S. and South Korean Cooperation in the World Nuclear Energy Market: Major Policy Considerations*, by Mark Holt.

<sup>65</sup> See also CRS Report RS22937, *Nuclear Cooperation with Other Countries: A Primer*, by Paul K. Kerr and Mary Beth Nikitin. Full text of the agreement is available at [http://nnsa.energy.gov/sites/default/files/nnsa/inlinefiles/Korea\\_South\\_123.pdf](http://nnsa.energy.gov/sites/default/files/nnsa/inlinefiles/Korea_South_123.pdf).

Alternatively, Congress could enact a separate law or provision exempting South Korea from those requirements and extending the terms of the current agreement, which would be subject to normal congressional rules and procedures.

One of the reasons Seoul and Washington have decided on a two-year extension is to give more time to negotiators to work out a sticking point in the talks—how to treat fuel cycle issues. South Korea reportedly requested that the new agreement include a provision that would give permission in advance for U.S.-obligated spent nuclear fuel to be reprocessed to make new fuel using a type of reprocessing called pyroprocessing.<sup>66</sup> The United States and South Korea are jointly researching pyroprocessing, but the technology is at the research and development stage.<sup>67</sup> The Obama Administration would prefer to approve such activities on a case-by-case basis (referred to as “programmatically consent”), as is provided for under the current agreement. The South Korean government is reportedly also seeking confirmation in the renewal agreement of its right to build enrichment plants.

For several decades, the United States has pursued a policy of limiting the spread of enrichment and reprocessing technology to new states as part of its nonproliferation policies.<sup>68</sup> This is because enrichment and reprocessing can create new fuel or material for nuclear weapons. Advance permission to reprocess rarely has been included in U.S. nuclear cooperation agreements, and to date has only been granted to countries that already had the technology (such as to India, Japan, and Western Europe). However, the issue has become a sensitive one in the U.S.-ROK relationship. Many South Korean officials and politicians see the United States’ rules as limiting South Korea’s national sovereignty by requiring U.S. permission for civilian nuclear activities. This creates a dilemma for U.S. policy as the Obama Administration has been a strong advocate of limiting the spread of fuel cycle facilities to new states, and would prefer multilateral solutions to spent fuel disposal.

Spent fuel disposal is a key policy issue for South Korean officials, and some see pyroprocessing as a potential solution. While reactor-site spent fuel pools are filling up, the construction of new spent fuel storage facilities is highly unpopular with the public. Some officials argue that in order to secure public approval for an interim storage site, the government needs to provide a long-term plan for the spent fuel. However, some experts point out that by-products of spent fuel reprocessing would still require long-term storage and disposal options. Other proponents of pyroprocessing see it as a way to advance energy independence for South Korea.

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<sup>66</sup> Daniel Horner, “South Korea, U.S. at Odds over Nuclear Pact,” *Arms Control Today*, September 2012, [http://armscontrol.org/act/2012\\_09/Sout-Korea-US-at-Odds-Over-Nuclear-Pact](http://armscontrol.org/act/2012_09/Sout-Korea-US-at-Odds-Over-Nuclear-Pact). Under the 1978 Nuclear Nonproliferation Act, consent rights apply to material originating in the U.S. or material that has been fabricated into fuel or irradiated in a reactor with U.S. technology. The majority of South Korea’s spent fuel would need U.S. consent before it could be reprocessed.

<sup>67</sup> Reprocessing of spent nuclear fuel can be used to make new reactor fuel or to separate out plutonium in the spent fuel for weapons use. Pyroprocessing, or electro-refining, is a non-aqueous method of recycling spent fuel into new fuel for fast reactors. It only partially separates plutonium and uranium from spent fuel. There is debate over the proliferation implications of this technology.

<sup>68</sup> For more, see CRS Report RS22937, *Nuclear Cooperation with Other Countries: A Primer*, by Paul K. Kerr and Mary Beth Nikitin.

For decades, the United States and South Korea have worked on joint research and development projects to address spent fuel. In the 1990s, the two countries worked intensely on research and development on a different fuel recycling technology (the “DUPIC” process), but this technology ultimately was not commercialized. In the past 10 years, joint research has centered on pyroprocessing. The Korean Atomic Energy Research Institute (KAERI) is conducting a laboratory-scale research program on reprocessing spent fuel with an advanced pyroprocessing technique. U.S.-South Korean bilateral research on pyroprocessing began in 2002 under the Department of Energy’s International Nuclear Energy Research Initiative (I-NERI). New R&D work on pyroprocessing was temporarily halted by the United States in 2008, due to the proliferation sensitivity of the technology. In an attempt to find common ground and continue bilateral research, in October 2010 the United States and South Korea began a 10-year joint study on the economics, technical feasibility, and nonproliferation implications of pyroprocessing.

While the Korean nuclear research community argues for development of pyroprocessing technology, the level of consensus over the pyroprocessing option among Korean government agencies, electric utilities, and the public remains uncertain. Generally, there appears to be support in South Korea for research and development of the technology. Some analysts are concerned about the economic and technical viability of commercializing the technology. While the R&D phase would be paid for by the government, the private sector would bear the costs of commercialization. At a political level, pyroprocessing may have more popularity as a symbol of South Korean technical advancement and the possibility of energy independence. Some argue that South Korea should have the independent ability to provide fuel and take back waste from new nuclear power countries in order to increase its competitive edge when seeking power plant export contracts.

Some analysts critical of the development of pyroprocessing in South Korea point to the 1992 Joint Declaration, in which North and South Korea agreed they would not “possess nuclear reprocessing and uranium enrichment facilities” and are concerned about the impact of South Korea’s pyroprocessing on negotiations with the North. Others emphasize that granting permission for pyroprocessing in South Korea would contradict U.S. nonproliferation policy to halt the spread of sensitive technologies to new states. Some observers, particularly in South Korea, point out that the United States has given India and Japan consent to reprocess, and argue that they should be allowed to develop this technology under safeguards.

South Korea and the United States have several options on how to treat this issue in the 123 negotiations over the next few years. One option would be to renew the agreement without granting any prior consent, and apply for programmatic consent in the future as required (i.e., the same provisions as the current agreement). Another would be for South Korea to seek long-term advance consent for pyroprocessing. Alternatively, South Korea could seek programmatic consent for research and development of the technology and could then ask for further consent for commercialization if it decided to go that route at a future date.

Since the technology has not been commercialized anywhere in the world, the United States and the International Atomic Energy Agency (IAEA) are working with the South Korean government to develop appropriate IAEA safeguards should the technology be developed further. Whether pyroprocessing technology can be sufficiently monitored to detect diversion to a weapons program is a key aspect of the study.

## South Korean Nonproliferation Policy

South Korea has been a consistent and vocal supporter of strengthening the global nonproliferation regime, which is a set of treaties, voluntary export control arrangements, and other policy coordination mechanisms that work to prevent the spread of nuclear, biological, and chemical weapons and their delivery systems. South Korea is a member of the Nuclear Suppliers' Group (NSG), which controls sensitive nuclear technology trade, and adheres to all international nonproliferation treaties and export control regimes. South Korea also participates in the G-8 Global Partnership, and other U.S.-led initiatives—the Proliferation Security Initiative, the International Framework for Nuclear Energy Cooperation (formerly GNEP), and the Global Initiative to Combat Nuclear Terrorism. South Korea has contributed \$1.5 million to the United States' nuclear smuggling prevention effort, run by the Department of Energy, as part of its G8 Global Partnership pledge.<sup>69</sup>

An Additional Protocol (AP) to South Korea's safeguards agreement with the International Atomic Energy Agency (IAEA) entered into force as of February 2004. This gives the IAEA increased monitoring authority over the peaceful use of nuclear technology. In the process of preparing a more complete declaration of nuclear activities in the country, the Korean Atomic Energy Research Institute (KAERI) disclosed previously undeclared experiments in its research laboratories on uranium enrichment in 2000, and on plutonium extraction in 1982. The IAEA Director General reported on these undeclared activities to the Board of Governors in September 2004, but the Board did not report them to the U.N. Security Council. In response, the Korean government reconfirmed its cooperation with the IAEA and commitment to the peaceful use of nuclear energy, and reorganized the oversight of activities at KAERI. The experiments reminded the international community of South Korea's plans for a plutonium-based nuclear weapons program in the early 1970s under President Park Chung-hee, the father of the current President Park. Deals to acquire reprocessing and other facilities were canceled under intense U.S. pressure, and President Park eventually abandoned weapons plans in exchange for U.S. security assurances. The original motivations for obtaining fuel cycle facilities as well as the undeclared experiments continue to cast a shadow over South Korea's long-held pursuit of the full fuel cycle. As a result, since 2004, South Korea has aimed to improve transparency of its nuclear programs and participate fully in the global nonproliferation regime. In addition, the 1992 Joint Declaration between North and South Korea says that the countries "shall not possess nuclear reprocessing and uranium enrichment facilities." Since North Korea has openly pursued both of these technologies, an intense debate is underway over whether South Korea should still be bound by those commitments. Some analysts believe that an agreement with North Korea on denuclearization could be jeopardized if South Korea does not uphold the 1992 agreement.

Of recent significance, South Korea hosted the 2012 Nuclear Security Summit, a forum initiated by President Obama shortly after his inauguration. This was the second such summit after the 2010 Washington, DC, event. The South Korean government agreed to host the summit because: it fit into the "Global Korea" concept of international leadership and summitry; it was a chance for the South Korean nuclear industry to showcase its accomplishments; and the South Korean government was able to emphasize South Korea's role as a responsible actor in the nuclear field, in stark contrast with North Korea. It was also an important symbol of trust between the U.S. and South Korean Presidents. The Obama Administration preferred that the host of the second summit

<sup>69</sup> "Republic of Korea Increases Support of NNSA Work to Combat Nuclear Smuggling," NNSA Press Release, January 2, 2013, <http://www.nnsa.energy.gov/mediaroom/pressreleases/koreacontributions010213>.

would maintain the focus and objectives of the original U.S. summit, and Obama Administration officials have praised South Korea's leadership. Observers have pointed out that South Korea was more than merely a logistical host for the summit, and displayed intense engagement and leadership in setting the agenda, accommodating diverse opinions on the scope of the meeting, convincing heads of state to attend, and producing summit outcome documents. While there reportedly were initial disagreements between the United States and South Korea over some of the summit agenda items (such as to what extent to include radiological security issues), overall, the summit appears to have strengthened the bilateral relationship and coordination on nonproliferation policy. In parallel with the summit, a nuclear industry summit and non-governmental expert symposium were also held.

## **South Korean Politics**

### **A Short History of South Korean Presidential Changes**

For most of the first four decades after the country was founded in 1948, South Korea was ruled by authoritarian governments. The most important of these was led by Park Chung-hee, a general who seized power in a military coup in 1961 and ruled until he was murdered by his intelligence chief in 1979. The legacy of Park, President Park Geun-hye's father, is a controversial one. On the one hand, he orchestrated the industrialization of South Korea that transformed the country from one of the world's poorest. On the other hand, he ruled with an iron hand and brutally dealt with real and perceived opponents, be they opposition politicians, labor activists, or civil society leaders. For instance, in the early 1970s South Korean government agents twice tried to kill then-opposition leader Kim Dae-jung, who in the second attempt was saved only by U.S. intervention. The divisions that opened under Park continue to be felt today. Conservative South Koreans tend to emphasize his economic achievements, while progressives focus on his human rights abuses.

Ever since the mid-1980s, when widespread anti-government protests forced the country's military rulers to enact sweeping democratic reforms, democratic institutions and traditions have deepened in South Korea. In 1997, long-time dissident Kim Dae-jung was elected to the presidency, the first time an opposition party had prevailed in a South Korean presidential election. In December 2002, Kim was succeeded by a member of his left-of-center party: Roh Moo-hyun, a self-educated former human rights lawyer who emerged from relative obscurity to defeat establishment candidates in both the primary and general elections. Roh campaigned on a platform of reform—reform of Korean politics, economic policymaking, and U.S.-ROK relations. He was elected in part because of his embrace of massive anti-American protests that ensued after a U.S. military vehicle killed two Korean schoolgirls in 2002. Like Kim Dae-jung, Roh pursued a “sunshine policy” of largely unconditional engagement with North Korea that clashed with the harder policy line pursued by the Bush Administration until late 2006. Roh also alarmed U.S. policymakers by speaking of a desire that South Korea should play a “balancing” role among China, the United States, and Japan in Northeast Asia. Despite this, under Roh's tenure, South Korea deployed over 3,000 non-combat troops to Iraq—the third-largest contingent in the international coalition—and the two sides initiated and signed the KORUS FTA.

In the December 2007 election, former Seoul mayor Lee Myung-bak's victory restored conservatives to the presidency. During the final two years of his presidency, Lee's public approval ratings fell to the 25%-35% level, driven down by—among other factors—a series of scandals surrounding some of his associates and family members, and by an increasing concern among more Koreans about widening income disparities between the wealthy and the rest of

society. Since the end of military rule in 1988, every former South Korean president has been involved in scandal and in some cases criminal investigation within several months of leaving office. It remains to be seen if the abuse-of-power allegations that have swirled around some of Lee's family members and supporters will expand to include Lee himself.

By law, South Korean presidents serve one five-year term. The country's next presidential election is to be in December 2017. Parliamentary elections are scheduled for April 2016.

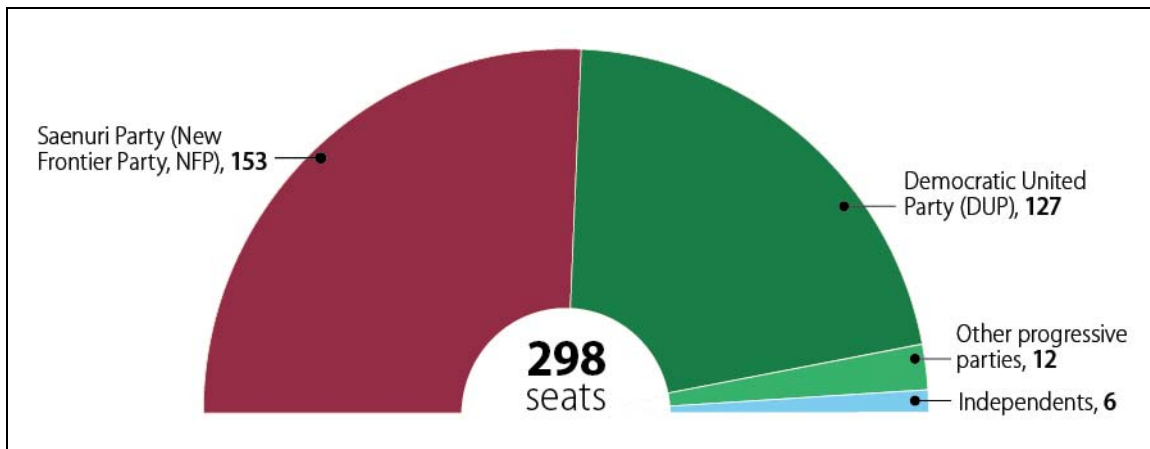
### A Powerful Executive Branch

Nominally, power in South Korea is shared by the president and the 300-member unicameral National Assembly. Of these, 246 members represent single-member constituencies. The remaining 54 are selected on the basis of proportional voting. National Assembly members are elected to four-year terms. The president and the state bureaucracy continue to be the dominant forces in South Korean policymaking, as formal and informal limitations prevent the National Assembly from initiating major pieces of legislation.

### Political Parties

Presently, there are two major political parties in South Korea: President Park's conservative Saenuri Party (which has been translated as "New Frontier Party" or NFP) and the opposition, center-left Democratic United Party (DUP).<sup>70</sup> U.S. ties have historically been much stronger with South Korea's conservative parties.

**Figure 3. Party Strength in South Korea's National Assembly**  
As of April 27, 2012



**Notes:** President Park Geun-hye is from the Saenuri (New Frontier) Party. The last nationwide legislative elections were held in April 2012. The next elections are scheduled for April 2016. South Korea's next presidential election is scheduled for December 2017. By law, South Korean presidents are limited to one five-year term.

<sup>70</sup> The Saenuri Party formerly was known as the Grand National Party (GNP).

The NFP has controlled the Blue House (the residence and office of South Korea's president) and the National Assembly since 2008. In the last National Assembly elections, held in April 2012, the NFP—under the leadership of Park Geun-hye—shocked nearly all observers by winning a slim majority. (See **Figure 3**.) For much of 2011, virtually all the political winds appeared to be blowing in favor of the opposition, left-of-center parties, and many predicted they would achieve a sweeping victory.<sup>71</sup> Thus, even though the opposition Democratic United Party (DUP) increased its seat tally by nearly 50%, to 127, the April vote was considered a humiliating defeat, and the party's leadership resigned soon thereafter. Although the NFP retained control of the Assembly, its narrow majority could make it vulnerable if it loses any of its members.

South Korea's progressive political parties controlled the Blue House for 10 years, from 1998-2008. For a four-year period, from 2004-2008, a progressive party was the largest political group in the National Assembly and held a majority for part of that period. After failing to retake the Blue House or National Assembly in 2012, the DUP and other progressive parties face several more years without significant tools of power and influence within the South Korean polity. It remains to be seen if, as happened the last time the DUP suffered consecutive national election losses, the DUP goes through a period of factionalism and disarray.

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<sup>71</sup> Among the many signs of this trend: the progressive parties soundly defeated the ruling party in April 2011 legislative by-elections, a left-of-center activist (Park Won-Soon) won a vote for the Seoul mayoralty in October; the approval ratings for President Lee and his party plummeted, due in part to a series of scandals; and in late 2011 and early 2012 Korea's major progressive parties either merged or decided to cooperate during the April National Assembly elections.

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## Author Contact Information

Mark E. Manyin  
Specialist in Asian Affairs  
mmanyin@crs.loc.gov, 7-7653

Mary Beth Nikitin  
Specialist in Nonproliferation  
mnikitin@crs.loc.gov, 7-7745

Emma Chanlett-Avery  
Specialist in Asian Affairs  
echanlettavery@crs.loc.gov, 7-7748

Ian E. Rinehart  
Analyst in Asian Affairs  
irinehart@crs.loc.gov, 7-0345

William H. Cooper  
Specialist in International Trade and Finance  
wcooper@crs.loc.gov, 7-7749